

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 30, 2018

REGULAR X CONSENT EFFECTIVE DATE February 1, 2018

DATE: January 22, 2018

TO: Public Utility Commission

FROM: Lisa Gorsuch

THROUGH: Jason Eisdorfer and JP Batmale

SUBJECT: AVISTA UTILITIES: (Docket No. UG 345/Advice No. 17-10-G) Reflects out of cycle update in the cost of purchased gas and the amortization rate for the Purchased Gas Adjustment (PGA) balancing account.

STAFF RECOMMENDATION:

Staff recommends approval of Avista Corporation dba Avista Utilities' (Avista or Company) out-of-cycle update in the cost of purchased gas and the amortization rate for the PGA balancing account, and recommends that the Company's proposed tariff sheets in Docket No. UG 345/Advice No. 17-10-G be approved with an effective date of February 1, 2018.

DISCUSSION:

Issue

Whether the Commission should approve Avista's proposed out-of-cycle PGA along with the tariff sheet revisions proposed by the Company in Docket No. UG 345/Advice No. 17-10-G.

Applicable Law

ORS 757.210 authorizes the Commission to establish the rates charged by public utilities. The Commission may approve tariff changes if they are deemed to be fair, just and reasonable. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025.

Per Order No. 17-398 in Docket UM 1497(7), the Commission Approved Avista's application to defer purchased gas cost differences beginning November 1, 2017, in accordance with the PGA. ORS 757.259(5) authorizes the Commission to allow a utility to amortize costs deferred under an automatic adjustment clause. The amortization is subject to the Commission's determination the costs were prudently incurred. Under ORS 757.259(6), the overall average rate impact of the amortizations authorized under ORS 757.259 in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year. ORS 757.259(7) allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. OAR 860-027-0300 sets forth additional requirements and procedures related to deferred accounting.

To determine prudence the Commission reviews the Company's actions, based on all that the Company knew or should have known at the time, to determine whether the actions were reasonable and prudent in light of the circumstances, which then existed.¹

The PGA mechanism was originally established by Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-docket UM 1286.² Order No. 14-238 is the most recent of these orders, which set out the Commission's procedures and requirements concerning the processing of PGA filings.

Discussion and Analysis

On December 22, 2017, Avista submitted an out of cycle update in the cost of purchased gas and the amortization rate for the PGA balancing account due to continued decline in wholesale natural gas prices. This update will better reflect current market prices for natural gas. Prior to making this filing the Company contacted Staff regarding this proposed change allowing Staff more time for review.

The 2017 Annual PGA review was completed in October of 2017. The effective rate change of the 2017 PGA was November 1, 2017, just two months prior to this filing.

¹ *In re PacifiCorp*, Order No. 12-493.

² PGA Guidelines were acknowledged by the Commission in Docket No. UM 1286, Order No. 09-248, on June 23, 2009. The Guidelines in Docket No. UM 1286 have been modified three different times since they were first acknowledged by the Commission, in Order No. 10-197, in Order No. 11-196, and in Order No. 14-238.

Avista's 2017 PGA is Docket No. UG 339/Advice No. 17-02-G, Commission Order No. 17-416.³ In that filing the Company's WACOG was reduced by approximately \$0.00493 per therm from \$0.24529 per therm to \$0.24036 per therm (including revenue sensitive costs).

As described by Avista in its filing, the Company calculated the proposed WACOG of \$0.20072 per therm by adjusting two items. The first was in accordance with the Portfolio Guidelines in Docket No. UM 1286.⁴ The Company used a 60-day historical average of forward prices and supply basins (as of December 20, 2017) to develop an estimated cost associated with index purchases. The estimated monthly volumes to be purchased by basin were multiplied by the 60-day average forward price for the corresponding month and basin. As a result, the weighted average price for these volumes is \$1.647 per dekatherm (\$0.165 per therm). The weighted average price currently included in rates is \$2.11 per dekatherm (\$0.211 per therm).

The second adjustment was related to the natural gas hedges Avista entered into after it filed its 2017 PGA. The weighted average price for hedged natural gas currently included in rates is \$2.63 per dekatherm (\$0.263 per therm). The weighted average price for all hedges, including those entered into after the annual PGA filing, is \$2.346 per dekatherm (0.235 per therm).

Commodity Costs – Schedule 461

Avista calculated the proposed commodity weighted average cost of gas (WACOG) of \$0.20072 per therm, per PGA Guideline in Docket No. UM 1286,⁵ based on the following:

- 1) Avista used a 60-day historical average of forward prices and supply basins⁶ to develop an estimated cost⁷ associated with index purchases and,

³ [NOTE: Links are not live in documents give to Commissioners or posted on eDockets. Given that and that all of the docket information is included in the sentence itself, I think this footnote can be removed.] Link to Docket No. UG 339/Advice No. 17-02-G, Commission Order No. 17-416:

<http://apps.puc.state.or.us/orders/2017ords/17-416.pdf>

⁴ <http://apps.puc.state.or.us/orders/2014ords/14-238.pdf>

⁵ [NOTE: Same thought as the note above in Footnote 3] Link to PGA Guidelines in Docket No. UM 1286: <http://apps.puc.state.or.us/orders/2014ords/14-238.pdf>

⁶ 60-day historical average of forward prices and supply basins used by Avista was as of December 20, 2017.

⁷ The estimated monthly volumes to be purchased by basin are multiplied by the 60-day average forward price for the corresponding month and basin.

- 2) Avista entered into additional natural gas hedges after it filed its Annual 2017 PGA. The weighted average price for hedged natural gas presently included in rates of \$2.63 per dekatherm (\$0.263 per therm) is adjusted to \$2.346 per dekatherm (0.235 per therm) including hedges entered into after the most recent Annual PGA filing.

Table 1 below shows the proposed commodity WACOG change from rates currently in effect.

Table 1: Projected Out of Cycle Update
 (in \$/Therm)

Item	Current Rate 2017-2018 Gas Year	Proposed Rate Out of Cycle PGA Update		Change
Commodity	0.24036	0.20072		-0.03964

The revenue change for the 10 months reflected in this filing is a decrease of \$2.5 million or 3.5 percent.

Table 2 below shows the proposed change by rate schedule.

Table 2: Schedule 461 Commodity

Rate Schedule	Present	Proposed	Change
410, 420, 424, 444,	\$0.24036	\$0.20072	\$(0.03964)
440	\$0.24036	\$0.20072	\$(0.03964)

Each core customer pays the same annual rate for purchased gas on a per therm basis. Table 3 below shows the proposed change impact by customer class.

Table 3: Proposed Change Impact by Customer Class

Sch No	Description	Present Revenues	Proposed Revenues	Revenue Incr (Decr)	Monthly Use Therms	Present Monthly Cost	Proposed Monthly Cost	Monthly Change	Proposed Change Monthly Cost
410	Residential	\$44,474,089	\$43,059,887	\$(1,414,202)	40	\$49.79	\$48.20	\$(1.59)	-3.2%
420	General	\$20,794,138	\$20,000,439	\$(793,699)	170	\$176.54	\$169.80	\$(6.74)	-3.8%
424	Large Gen	\$1,762,660	\$1,631,953	\$(130,707)	3,821	\$2,042.58	\$1,891.11	\$(151.47)	-7.4%
444	Seasonal	\$124,604	\$115,696	\$(8,908)	5,691	\$3,155.43	\$2,929.84	\$(225.59)	-7.1%
440	Interruptible	\$1,124,145	\$988,581	\$(135,564)	9,671	\$3,178.95	\$2,795.60	\$(383.35)	-12.1%

With these changes, effective February 1, 2018, the monthly bill of a residential customer using an average of 40 therms per month will decrease by \$1.59, or -3.2 percent for a revised monthly bill of \$48.20.

Conclusion

Staff has reviewed the comprehensive work papers filed by Avista in support of this proposed rate change. Prior to this review, Staff analyzed the 2017 Purchased Gas Adjustment, Docketed UG 339/Advice No. 17-02-G, which resulted in a rate decrease of 2.1 percent that went into effect on November 1, 2017, approximately three months ago. This out-of-cycle update in the cost of purchased gas and the amortization rate for the PGA balancing account reflects a revenue decrease of \$2.5 million, or approximately 3.5 percent effective February 1, 2018. As mentioned above, this is due to continued decline in wholesale natural gas prices. This update will better reflect current market prices for natural gas. Staff recommends that this rate change be allowed to go into effect as filed by Avista.

Staff commends Avista for determining that this WACOG adjustment should be made, and for making this filing less than 2 months following the effective date of the rates from the most recent PGA. Avista customers will not only benefit from having lower gas costs this winter, but will also be less likely to receive the wrong price signals that may have otherwise resulted from a larger over-collection creating an inflated credit for the backward looking, true-up portion for the next PGA. It is also noteworthy that the Company will be forgoing revenue from a sharing mechanism that allows gas costs above or below the projected monthly cost per therm, approved by the Commission, in October each year. The gas costs above or below the projected monthly cost to be shared between the company and its core customers are intended to provide an incentive to gas companies to minimize both gas cost and gas cost variability through its procurement of natural gas for its customers.

PROPOSED COMMISSION MOTION:

Approve Avista's application requesting an out-of-cycle update of its gas cost changes for commodity and transportation, as proposed in Docket No. UG 345, effective with service on and after February 1, 2018, along with the associated tariff revisions in Advice No. 17-10-G.